

SCOTTS LIQUID GOLD INC
Form 10-Q
November 13, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-13458

SCOTT S LIQUID GOLD-INC.

(Exact name of registrant as specified in its charter)

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Colorado
(State or other jurisdiction of
incorporation or organization)

84-0920811
(I.R.S. Employer
Identification No.)

4880 Havana Street, Suite 400, Denver, CO
(Address of principal executive offices)
303-373-4860

80239
(Zip Code)

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of November 11, 2013, the Registrant had 11,428,831 of its common stock, \$0.10 par value per share, outstanding.

CAUTIONARY NOTE ON FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q (this Report) may contain forward-looking statements within the meaning of U.S. federal securities laws. You can typically identify forward-looking statements by the use of words, such as may, could, should, assume, project, believe, anticipate, expect, estimate, potential, plan, and other similar words. Forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements and our performance inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of each of our significant products in the marketplace; the degree of success of any new product or product line introduction by us; competitive factors; any decrease in distribution of (i.e., retail stores carrying) our significant products; continuation of our distributorship agreements for Montagne Jeunesse skin care products and Batiste Dry Shampoos; the need for effective advertising of our products; limited resources available for such advertising; new competitive products and/or technological changes; dependence upon third party vendors and upon sales to major customers; changes in the regulation of our products, including applicable environmental regulations; future losses which could affect our liquidity; the loss of any executive officer; and other matters discussed in our Annual Report on Form 10-K for the year ended December 31, 2012 and this Report. The forward-looking statements in this Report speak as of the filing date of this Report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this Report.

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PART I

ITEM 1. FINANCIAL STATEMENTS.

Consolidated Statements of Operations (Unaudited)

Scott's Liquid Gold-Inc. & Subsidiaries

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------|-------------------|---------------|
| | September 30, | | September 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Net sales | \$ 5,008,500 | \$ 3,867,700 | \$ 14,242,300 | \$ 11,623,600 |
| Operating costs and expenses: | | | | |
| Cost of sales | 2,639,400 | 2,287,500 | 7,637,400 | 6,574,600 |
| Advertising | 70,600 | 60,100 | 489,800 | 255,500 |
| Selling | 1,092,700 | 1,001,300 | 3,374,200 | 3,256,100 |
| General and administrative | 604,400 | 707,900 | 2,022,600 | 2,063,800 |
| Loss on impairment of long-lived assets | 0 | 286,900 | 0 | 286,900 |
| Total operating costs and expenses | 4,407,100 | 4,343,700 | 13,524,000 | 12,436,900 |
| Income (loss) from operations | 601,400 | (476,000) | 718,300 | (813,300) |
| Rental and other income | 8,700 | 32,100 | 30,100 | 96,700 |
| Interest expense | (7,100) | (67,200) | (72,700) | (195,100) |
| Income (loss) before income taxes | 603,000 | (511,100) | 675,700 | (911,700) |
| Income tax expense | 70,700 | 0 | 79,700 | 0 |
| Net income (loss) | \$ 532,300 | \$ (511,100) | \$ 596,000 | \$ (911,700) |
| Net income (loss) per common share | | | | |
| Basic | \$ 0.05 | \$ (0.05) | \$ 0.05 | \$ (0.08) |
| Diluted | \$ 0.05 | \$ (0.05) | \$ 0.05 | \$ (0.08) |
| Weighted average shares outstanding: | | | | |
| Basic | 11,285,910 | 10,937,000 | 11,200,470 | 10,934,253 |
| Diluted | 11,492,400 | 10,937,000 | 11,365,572 | 10,934,253 |

See accompanying notes to these Consolidated Financial Statements (Unaudited).

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Consolidated Balance Sheets

Scott's Liquid Gold-Inc. & Subsidiaries

| | September 30, 2013 (unaudited) | December 31, 2012 |
|--|--------------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,308,200 | \$ 253,900 |
| Trade receivables, net | 1,360,700 | 969,200 |
| Inventories, net | 2,867,600 | 1,975,800 |
| Prepaid expenses | 148,500 | 139,100 |
| Total current assets | 7,685,000 | 3,338,000 |
| Property, plant and equipment, net | 533,000 | 467,400 |
| Assets held for sale | 0 | 8,907,600 |
| Other assets | 66,000 | 82,800 |
| Total assets | \$ 8,284,000 | \$ 12,795,800 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Obligations collateralized by receivables and inventory | \$ 0 | \$ 1,201,400 |
| Accounts payable | 940,400 | 1,371,600 |
| Accrued payroll and benefits | 442,600 | 509,200 |
| Income taxes payable | 57,500 | 0 |
| Accrued property taxes | 28,200 | 227,900 |
| Other accrued expenses | 0 | 19,700 |
| Current maturities of long-term debt | 0 | 352,600 |
| Total current liabilities | 1,468,700 | 3,682,400 |
| Long-term debt, net of current maturities | 0 | 3,010,700 |
| Total liabilities | 1,468,700 | 6,693,100 |
| Shareholders' equity: | | |
| Common stock; \$0.10 par value, authorized 50,000,000 shares; issued and outstanding 11,316,400 shares (2013) and 10,937,000 shares (2012) | 1,131,600 | 1,093,700 |
| Capital in excess of par | 5,581,300 | 5,502,600 |
| Retained earnings (accumulated deficit) | 102,400 | (493,600) |
| Total shareholders' equity | 6,815,300 | 6,102,700 |
| Total liabilities and shareholders' equity | \$ 8,284,000 | \$ 12,795,800 |

See accompanying notes to these Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Cash Flows (Unaudited)

Scott's Liquid Gold-Inc. & Subsidiaries

| | Nine Months Ended September 30, | |
|---|------------------------------------|--------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 596,000 | \$ (911,700) |
| Adjustment to reconcile net income (loss) to net cash used by operating activities: | | |
| Depreciation and amortization | 113,800 | 358,100 |
| Impairment of long-lived assets | 0 | 286,900 |
| Stock-based compensation | 39,300 | 40,500 |
| Loss on disposal of assets | 7,200 | 0 |
| Change in operating assets and liabilities: | | |
| Trade receivables | (391,500) | (730,900) |
| Inventories | (891,800) | 109,900 |
| Prepaid expenses and other assets | 7,400 | 50,500 |
| Net (payments) proceeds on obligations collateralized by receivables and inventory | (1,201,400) | 938,900 |
| Income taxes payable | 57,500 | 0 |
| Accounts payable and accrued expenses | (717,200) | 281,400 |
| Total adjustments to net income (loss) | (2,976,700) | 1,335,300 |
| Net Cash (Used) Provided by Operating Activities | (2,380,700) | 423,600 |
| Cash flow from investing activities: | | |
| Net proceeds from sale of assets held for sale | 8,922,600 | 0 |
| Purchase of property, plant and equipment | (201,600) | (12,000) |
| Net Cash Provided (Used) by Investing Activities | 8,721,000 | (12,000) |
| Cash flow from financing activities: | | |
| Principal payments on long-term debt | (3,363,300) | (254,400) |
| Proceeds from exercise of stock options | 77,300 | 5,100 |
| Net Cash Used by Financing Activities | (3,286,000) | (249,300) |
| Net Increase in Cash and Cash Equivalents | 3,054,300 | 162,300 |
| Cash and Cash Equivalents, beginning of period | 253,900 | 575,900 |
| Cash and Cash Equivalents, end of period | \$ 3,308,200 | \$ 738,200 |
| Supplemental disclosures: | | |
| Cash paid during the period for interest | \$ 41,000 | \$ 181,900 |

See accompanying notes to these Consolidated Financial Statements (Unaudited).

Note 1. Organization and Summary of Significant Accounting Policies.

(a) Company Background

Scott's Liquid Gold-Inc. (a Colorado corporation) was incorporated on February 15, 1954. Scott's Liquid Gold-Inc. and its wholly-owned subsidiaries (collectively, the Company, we, our, or us) develop, manufacture, market and sell quality household and skin and hair care products. We are also an exclusive distributor in the United States of Montagne Jeunesse skin sachets and Batiste Dry Shampoo manufactured by two other companies. Our business is comprised of two segments, household products and skin and hair care products.

(b) Principles of Consolidation

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

(c) Basis of Presentation

The Consolidated Statements of Operations, Consolidated Balance Sheets, and the Consolidated Statements of Cash Flows included in this Report have been prepared by the Company. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at September 30, 2013 and results of operations and cash flows for all periods have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These consolidated financial statements should be read in conjunction with our financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012. The results of operations for the period ended September 30, 2013 are not necessarily indicative of the operating results for the full year.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts in our financial statements of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include, but are not limited to, the realization of deferred tax assets, reserves for slow moving and obsolete inventory, customer returns and allowances, and stock-based compensation. Actual results could differ from our estimates.

(e) Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less at the date of acquisition to be cash equivalents.

(f) Sale of Accounts Receivable

On November 3, 2008, effective as of October 31, 2008, we entered into a financing agreement with Summit Financial Resources, L.P. (Summit) for the purpose of providing working capital. The financing agreement with Summit was amended on March 12, 2009, March 16, 2011 (effective March 1, 2011) and June 29, 2012 (effective July 1, 2012). The agreement has a term that expires on January 1, 2014, but it may be renewed for additional 12 month periods unless either party elects to cancel in writing at least 60 days prior to January 1, 2014 and thereafter on the anniversary date of each 12 month period.

The agreement provides for a factoring line up to \$1.5 million and is secured primarily by accounts receivables, inventory, any lease in which we are a lessor and all investment property and guarantees by our active subsidiaries. Under the agreement, Summit will make loans at our request and in its discretion based on: (i) its purchases of our receivables, with recourse against us, at an advance rate of 85% (or such other percentage determined by Summit in its discretion) and (ii) our inventory not to exceed certain amounts, including an aggregate maximum of \$500,000. Prior to the amendment to the agreement on June 29, 2012, advances under the agreement had an interest rate of 1.5% over the prime rate (as published in The Wall Street Journal) for the accounts receivables portion of the advances and 4.0% over the prime rate for the inventory portion of the borrowings. The recent amendment reduced these interest rates to 1.0% over the prime rate for the accounts receivables portion and 2.5% over the prime rate for the inventory portion. Consequently, our interest cost adjusts with changes in the prime rate. At September 30, 2013, the prime rate was 3.25%.

In addition, prior to the amendment to the agreement on June 29, 2012, there was an administrative fee of 1.0% per month on the average monthly outstanding loan on the receivable portion of any advance and 1.35% per month on the average monthly outstanding loan on the inventory portion of any advance. The amendment on June 29, 2012 reduced these administrative fees to 0.85% per month on the average monthly outstanding loan on the receivable portion of any advance if the average quarterly loan in the prior quarter was less than or equal to \$1,000,000, and to 0.75% if the average quarterly loan in the prior quarter was greater than \$1,000,000 and to 1.0% per month on the average monthly outstanding loan on the inventory portion of any advance.

The agreement provides that neither we nor our active subsidiaries may engage in a change in control transaction without the prior written consent of Summit. Events of default include, but are not limited to, our failure to make a payment when due or a default occurring on any of our other indebtedness.

During the nine months ended September 30, 2013, we sold approximately \$823,800 of our accounts receivables to Summit for approximately \$700,300. As the advance rate on these accounts receivables was 85%, we retained an interest equal to 15% of those accounts receivables. On February 4, 2013, we paid \$909,778 to Summit to repay the outstanding balance on our credit line and we have maintained a zero loan balance since that time. At September 30, 2013, the entire \$1.5 million of this credit line was available for future factoring of accounts receivable invoices and borrowings secured by our inventory.

We report these transactions using the authoritative guidance of the Financial Accounting Standards Board (FASB) as a secured borrowing rather than as a sale. As a result, affected accounts receivable are reported under the Current Assets section within our Consolidated Balance Sheets as Trade receivables, net. Similarly, the net liability owing to Summit appears as Obligations collateralized by receivables and inventory within the Current Liabilities section of our Consolidated Balance Sheets. Net proceeds received on obligations collateralized by receivables and inventory appear as net cash (used) provided by operating activities within the Adjustment to reconcile net income (loss) to net cash used by operating activities section of our Consolidated Statements of Cash Flows.

On March 16, 2011, with the consent of Summit, we entered into a financing agreement with Wells Fargo Bank, National Association (Wells Fargo) for the purpose of further lowering the cost of borrowing associated with the financing of our accounts receivable. Pursuant to this agreement, we may sell accounts receivables from our largest customer, Wal-Mart Stores, Inc. (Wal-Mart), at a discount to Wells Fargo; provided, however, that Wells Fargo may reject offers to purchase such receivables in its discretion. These receivables may be purchased by Wells Fargo at a cost to us equal to LIBOR plus 1.15% per annum. The LIBOR rate used depends on the days to maturity of the receivable sold, typically ranging from 102 to 105 days. At September 30, 2013, Wells Fargo used the 104-day LIBOR rate of 0.29%.

The agreement has no fixed termination date, but continues unless terminated by either party giving 30 days prior written notice to the other party. During the nine months ended September 30, 2013, we sold approximately \$3,249,900 of our relevant accounts receivable to Wells Fargo for approximately \$3,236,000. The difference between the invoiced amount of the receivable and the cash that we received from Wells Fargo is a cost to us. This cost is in lieu of any cash discount our customer would have been allowed and, thus, is treated in a manner consistent with standard trade discounts granted to our customers.

The reporting of the sale of accounts receivables to Wells Fargo is treated as a sale rather than as a secured borrowing. As a result, affected accounts receivables are relieved from the Company's financial statements upon receipt of the cash proceeds.

(g) Inventories

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Inventories consist of raw materials and finished goods and are stated at the lower of cost (first-in, first-out method) or market. We record a reserve for slow moving and obsolete products and raw materials. We estimate this reserve based upon historical and anticipated sales.

Inventories were comprised of the following at:

| | September 30, 2013 | December 31, 2012 |
|------------------------------------|-----------------------|----------------------|
| Finished goods | \$ 1,481,200 | \$ 959,100 |
| Raw materials | 1,514,600 | 1,079,600 |
| Inventory reserve for obsolescence | (128,200) | (62,900) |
| | \$ 2,867,600 | \$ 1,975,800 |

(h) Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from three to 45 years. Building structures and building improvements are estimated to have useful lives of 35 to 45 years and three to 20 years, respectively. Production equipment and production support equipment are estimated to have useful lives of 15 to 20 years and three to 10 years, respectively. Office furniture and office machines are estimated to have useful lives of 10 to 20 and three to five years, respectively. Carpets, drapes and company vehicles are estimated to have useful lives of five to 10 years. Maintenance and repairs are expensed as incurred. Improvements that extend the useful lives of the asset or provide improved efficiency are capitalized.

(i) Financial Instruments

Financial instruments which potentially subject us to concentrations of credit risk include cash and cash equivalents and trade receivables. We maintain our cash balances in the form of bank demand deposits with financial institutions that we believe are creditworthy. Periodically throughout the year, we have maintained balances in various operating accounts in excess of federally insured limits. We establish an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. We have no significant financial instruments with off-balance sheet risk of accounting loss, such as foreign exchange contracts, option contracts or other foreign currency hedging arrangements.

The recorded amounts for cash and cash equivalents, receivables, other current assets, accounts payable and accrued expenses approximate fair value due to the short-term nature of these financial instruments. As of September 30, 2013, we had no long-term debt. Prior to February 1, 2013, our long-term debt bore interest at a fixed rate that adjusted annually to the then prime rate. The carrying value of our long-term debt approximated fair value as of December 31, 2012.

(j) Long-Lived Assets and Assets Held for Sale

We follow FASB authoritative guidance as it relates to the proper accounting treatment for the impairment or disposal of long-lived assets. This guidance requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

As of September 30, 2012, due to changes in the real estate market in Denver, Colorado, we conducted an evaluation into the fair value of our property, plant and equipment with particular attention to our land and office, warehouse and manufacturing buildings (collectively, the Facilities). We found there to be an impairment of \$286,900 in the carrying values of our long-lived assets. We determined the impairment amount after concluding that the low end of the range of fair value estimates at September 30, 2012 should be \$9.5 million and the net book value of the Facilities at September 30, 2012 was approximately \$9,786,900.

On November 5, 2012, pursuant to FASB authoritative guidance, we classified the Facilities as an asset held for sale. Upon classification as held for sale, the long-lived asset was measured at the lower of its carrying value or fair value less cost to sell, depreciation was ceased and the asset was separately presented on our Consolidated Balance Sheets.

On February 1, 2013, we sold our Facilities for \$9.5 million and received net proceeds of \$8.9 million after deducting the expenses for selling the Facilities.

(k) Income Taxes

We follow FASB authoritative guidance for the accounting for income taxes which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which related temporary differences become deductible. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Taxes are reported based on tax positions that meet a more-likely-than-not standard and that are measured at the amount that is more-likely-than-not to be realized. Differences between financial and tax reporting which do not meet this threshold are required to be recorded as unrecognized tax benefits or expense. We classify penalty and interest expense related to income tax liabilities as an income tax expense. There are no significant interest and penalties recognized in the statement of operations or accrued on the balance sheet.

(l) Revenue Recognition

Our revenue recognition policy is significant because the amount and timing of revenue is a key component of our results of operations. We follow guidance issued by FASB, which requires that certain criteria be met in order to recognize revenue. If these criteria are not met, then the associated revenue is deferred until it is met. In our case, the criteria generally are met when we have an arrangement to sell a product, we have delivered the product in accordance with that arrangement, the sales price of the product is determinable and we believe that we will be paid for the sale.

We establish reserves for customer returns of our products and customer allowances. We estimate these reserves based upon, among other things, an assessment of historical trends, information from customers and anticipated returns related to current sales activity. These reserves are established in the period of sale and reduce our revenue in that period.

Our reserve for customer allowances includes primarily reserves for trade promotions to support price features, displays and other merchandising of our products to our customers. The actual level of returns and customer allowances are influenced by several factors, including the promotional efforts of our customers, changes in mix of our customers, changes in the mix of the products we sell and the maturity of the product. We may change our estimates based on actual results and consideration of other factors that cause returns and allowances. In the event that actual results differ from our estimates, the results of future periods may be impacted.

We also establish reserves for coupons, rebates and certain other promotional programs for consumers. We estimate these reserves based upon, among other things, an assessment of historical trends and current sales activity. These reserves are recorded as a reduction of revenue at the later of the date at which the revenue is recognized or the date at which the sale incentive is offered.

We have also established an allowance for doubtful accounts. We estimate this allowance based upon, among other things, an assessment of the credit risk of specific customers and historical trends. We believe our allowance for doubtful accounts is adequate to absorb any losses which may arise. In the event that actual losses differ from our estimates, the results of future periods may be impacted.

At September 30, 2013 and December 31, 2012 approximately \$771,300 and \$468,400, respectively, had been reserved as a reduction of accounts receivable, and approximately \$0 and \$10,000, respectively, had been reserved as current liabilities. Trade promotions to our customers and incentives such as coupons to our consumer are deducted from gross sales and totaled \$1,411,900 and \$1,248,700 for the nine months ended September 30, 2013 and 2012, respectively.

(m) Advertising Costs

Advertising costs are expensed as incurred.

(n) Stock-based Compensation

During the nine months ended September 30, 2013, we granted options to: (i) acquire 85,000 shares of our common stock to two executive officers at a price of \$0.41 per share; (ii) an option to acquire 30,000 shares of our common stock to a board member at a price of \$0.55 per share; (iii) an option to acquire 15,000 shares of our common stock to a regional sales manager at a price of \$0.55 per share; and (iv) an option to acquire 15,000 shares of our common stock to a regional sales manager at a price of \$0.49 per share. These options which vest ratably over 48 months, or upon a change in control, and which expire after five years, were granted at 120% of the market value as of the date of

grant. In addition, during the nine months ended September 30, 2013, we granted options to acquire 90,000 shares of our common stock to three of our board members. These options which vested upon the date of grant, and which expire after five years, were granted at 120% of the market value as of the date of grant. During the first nine months of 2012, we granted an option to acquire 100,000 shares of our common stock to an executive officer at a price of \$0.24 per share. Please see Note 2 to our Consolidated Financial Statements (Unaudited) for information regarding the 495,047 fewer stock options outstanding at September 30, 2013 than at September 30, 2012.

The weighted average fair market value of the options granted in the first nine months of 2013 and 2012 was estimated on the date of grant, using a Black-Scholes option pricing model with the following assumptions:

| | September 30, 2013 | September 30, 2012 |
|--|-----------------------|-----------------------|
| Expected life of options (using the simplified method) | 4.5 years | 4.5 years |
| Average risk-free interest rate | 1.4% - 1.5% | 0.9% |
| Average expected volatility of stock | 139% | 144% |
| Expected dividend rate | None | None |

Compensation cost related to stock options recognized in operating results (included in general and administrative expenses) under authoritative guidance issued by the FASB was \$39,300 and \$40,500 in the nine months ended September 30, 2013 and 2012, respectively. Approximately \$117,000 of total unrecognized compensation costs related to non-vested stock options is expected to be recognized over the next 48 months. In accordance with this same authoritative guidance, there was no tax benefit from recording the non-cash expense as it relates to the options granted to employees, as these were qualified stock options which are not normally tax deductible. With respect to the non-cash expense associated with options granted to the non-employee directors, no tax benefit is recognized due to the existence of as yet unutilized net operating losses. At such time as these operating losses have been utilized and a tax benefit is realized from the issuance of non-qualified stock options, a corresponding tax benefit may be recognized.

(o) Operating Costs and Expenses Classification

Cost of sales includes costs associated with manufacturing and distribution including labor, materials, freight-in, purchasing and receiving, quality control, internal transfer costs, repairs, maintenance and other indirect costs, as well as warehousing and distribution costs. We classify shipping and handling costs comprised primarily of freight-out as selling expenses. Other selling expenses consist primarily of wages and benefits for sales and sales support personnel, travel, brokerage commissions and promotional costs, as well as certain other indirect costs. Shipping and handling costs totaled \$1,050,700 and \$1,083,700 for the nine months ended September 30, 2013 and 2012, respectively.

General and administrative expenses consist primarily of wages and benefits associated with management and administrative support departments, business insurance costs, professional fees, office facility related expenses, and other general support costs.

Note 2. Earnings per Share.

We present basic and diluted earnings or loss per share in accordance with authoritative guidance which establishes standards for computing and presenting basic and diluted earnings per share. Per share data is determined by using the weighted average number of common shares outstanding. Common equivalent shares are considered only for diluted earnings per share, unless considered anti-dilutive. Common equivalent shares, determined using the treasury stock method, result from stock options with exercise prices that are below the average market price of the common stock.

The potentially dilutive securities are comprised of outstanding stock options to acquire 870,303 and 1,365,350 of our shares at September 30, 2013 and 2012, respectively, a decrease of 495,047 or 36.3%. This decrease is due primarily to stock options being exercised as well as stock options expiring. At September 30, 2013, options to acquire 635,303 of our shares had exercise prices that were lower than the average market price of our shares for the nine months ended September 30, 2013. At September 30, 2012, potentially dilutive securities were excluded from the computation of weighted average shares outstanding due to their anti-dilutive effect.

The following is a reconciliation of the weighted average number of common shares outstanding for the three and nine months ended September 30, 2013 and 2012:

| | 2013 | |
|--|-----------------|-------------|
| | Three Months | Nine Months |

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| | | |
|--|------------|------------|
| Common shares outstanding, beginning of the period | 11,271,022 | 10,937,000 |
| Weighted average common shares issued | 14,888 | 263,470 |
| Weighted average number of common shares outstanding | 11,285,910 | 11,200,470 |
| Dilutive effect of common share equivalents | 206,490 | 165,102 |
| Diluted weighted average number of common shares outstanding | 11,492,400 | 11,365,572 |

| | 2012 | |
|--|-----------------|-------------|
| | Three Months | Nine Months |
| Common shares outstanding, beginning of the period | 10,937,000 | 10,907,000 |
| Weighted average common shares issued | 0 | 27,253 |
| Weighted average number of common shares outstanding | 10,937,000 | 10,934,253 |
| Dilutive effect of common share equivalents | 0 | 0 |
| Diluted weighted average number of common shares outstanding | 10,937,000 | 10,934,253 |

We have authorized 20,000,000 shares of preferred stock issuable in one or more series, none of which are issued or outstanding as of September 30, 2013.

Note 3. Segment Information.

We operate in two different segments: household products and skin and hair care products. Our products are sold nationally and internationally (primarily Canada), directly through our sales force and indirectly through independent brokers, to mass merchandisers, drugstores, supermarkets, hardware stores and other retail outlets and to wholesale distributors. We have chosen to organize our business around these segments based on differences in the products sold.

Accounting policies for our segments are the same as those described in Note 1. We evaluate segment performance based on segment income or loss before income taxes.

The following provides information on our segments for the three and nine months ended September 30:

| | Three Months Ended September 30, | | | |
|-----------------------------------|----------------------------------|-----------------------------------|-----------------------|-----------------------------------|
| | 2013 | | 2012 | |
| | Household Products | Skin and Hair Care Products | Household Products | Skin and Hair Care Products |
| Net sales to external customers | \$ 1,184,600 | \$ 3,823,900 | \$ 1,141,200 | \$ 2,726,500 |
| (Loss) income before income taxes | \$ (158,400) | \$ 761,400 | \$ (347,400) | \$ 123,200 |
| Identifiable assets | \$ 3,324,300 | \$ 3,745,700 | \$ 2,782,900 | \$ 4,159,200 |

| | Nine Months Ended September 30, | | | |
|-----------------------------------|---------------------------------|-----------------------------------|-----------------------|-----------------------------------|
| | 2013 | | 2012 | |
| | Household Products | Skin and Hair Care Products | Household Products | Skin and Hair Care Products |
| Net sales to external customers | \$ 3,791,700 | \$ 10,450,600 | \$ 3,690,900 | \$ 7,932,700 |
| (Loss) income before income taxes | \$ (837,000) | \$ 1,512,700 | \$ (1,094,600) | \$ 469,800 |
| Identifiable assets | \$ 3,324,300 | \$ 3,745,700 | \$ 2,782,900 | \$ 4,159,200 |

The following is a reconciliation of segment information to consolidated information for the three and nine months ended September 30:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net sales to external customers | \$ 5,008,500 | \$ 3,867,700 | \$ 14,242,300 | \$ 11,623,600 |
| Income (loss) before income taxes | \$ 603,000 | \$ (224,200) | \$ 675,700 | \$ (624,800) |
| Consolidated income (loss) before income taxes | \$ 603,000 | \$ (224,200) | \$ 675,700 | \$ (624,800) |
| Identifiable assets | \$ 7,070,000 | \$ 6,942,100 | \$ 7,070,000 | \$ 6,942,100 |
| Corporate assets | 1,214,000 | 7,034,600 | 1,214,000 | 7,034,600 |

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Consolidated total assets \$ 8,284,000 \$ 13,976,700 \$ 8,284,000 \$ 13,976,700

Corporate assets noted above are comprised primarily of our cash and investments, and property and equipment not directly associated with our manufacturing, warehousing, shipping and receiving activities.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Results of Operations

Our consolidated net sales for the first nine months of 2013 were \$14,242,300 versus \$11,623,600 for the first nine months of 2012, an increase of \$2,618,700 or 22.5%. We saw a 55.6% increase in net sales of the skin and hair care products that we distribute for other companies and a 2.8% decrease in net sales of our own line of skin care products. We saw a 2.7% increase in net sales of our household products. The reasons for the foregoing changes in net sales of our products are described below.

Our consolidated net sales for the third quarter of 2013 were \$5,008,500 versus \$3,867,700 for the third quarter of 2012, an increase of \$1,140,800 or 29.5%. We saw a 61.8% increase in net sales of the skin and hair care products that we distribute for other companies and a 6.7% increase in net sales of our own line of skin care products. We saw a 3.8% increase in net sales of our household products. The reasons for the foregoing changes in net sales of our products are described below.

Our net income for the first nine months of 2013 was \$596,000 versus a net loss of \$911,700 in the first nine months of 2012. Our net income for the third quarter of 2013 was \$532,300 versus a net loss of \$511,100 in the third quarter of 2012. The net income for the first nine months of 2013 compared to the net loss for the same period in 2012 resulted primarily from: (1) increased sales; (2) changes in our trade promotions to our customers; (3) changes in costs of sales; and (4) changes in operating expenses.

Summary of Results as a Percentage of Net Sales

| | Year Ended December 31, 2012 | Nine Months Ended September 30, 2013 2012 | |
|--|------------------------------------|--|--------|
| Net sales | | | |
| Household products | 30.5% | 26.6% | 31.8% |
| Skin and hair care products | 69.5% | 73.4% | 68.2% |
| Total net sales | 100.0% | 100.0% | 100.0% |
| Cost of sales | 56.6% | 53.6% | 56.6% |
| Gross profit | 43.4% | 46.4% | 43.4% |
| Other revenue | 1.5% | 0.2% | 0.8% |
| | 44.9% | 46.6% | 44.2% |
| Operating expenses | 46.2% | 41.3% | 48.0% |
| Loss on impairment of long-lived assets | 1.8% | 0% | 2.4% |
| Loss on impairment of assets held for sale | 3.6% | 0% | 0% |
| Interest expense | 1.8% | 0.5% | 1.7% |
| | 53.4% | 41.8% | 52.1% |
| Income (loss) before income taxes | (8.6%) | 4.8% | (7.9%) |

Our gross margins may not be comparable to those of other companies because some companies include all of the costs related to their distribution network in cost of sales. In contrast, we and other companies like us, exclude a portion of these costs (i.e., freight out to customers) from gross margin. Instead, we include them as part of selling expenses. See Note 1(o), "Operating Costs and Expenses Classification", to our Consolidated Financial Statements (Unaudited) in Item 1.

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Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Comparative Net Sales

| | Nine Months Ended September 30, | | Percentage |
|--|---------------------------------|---------------|------------------------|
| | 2013 | 2012 | Increase (Decrease) |
| Scott's Liquid Gold® and other household products | \$ 3,791,700 | \$ 3,690,900 | 2.7% |
| Total household products | 3,791,700 | 3,690,900 | 2.7% |
| Alpha Hydrox®, Diabetic cream and shampoo and other skin care products | 3,150,200 | 3,241,700 | (2.8%) |
| Montagne Jeunesse and Batiste Dry Shampoo | 7,300,400 | 4,691,000 | 55.6% |
| Total skin and hair care products | 10,450,600 | 7,932,700 | 31.7% |
| Total net sales | \$ 14,242,300 | \$ 11,623,600 | 22.5% |

During the first nine months of 2013, net sales of skin and hair care products accounted for 73.4% of consolidated net sales compared to 68.2% for the same period in 2012. The net sales of these products for that period were \$10,450,600 in 2013 compared to \$7,932,700 for the same period in 2012, an increase of \$2,517,900 or 31.7%.

The net sales of our Alpha Hydrox® and other manufactured skin care products were \$3,150,200 in the first nine months of 2013 versus \$3,241,700 for the same period in 2012, a decrease of \$91,500 or 2.8%. This decrease is primarily attributable to a decrease in the net sales of our Diabetic shampoo due to one of our customers returning Diabetic shampoo from certain of their stores and no longer carrying the shampoo in those stores.

The net sales of Montagne Jeunesse and Batiste Dry Shampoo were \$7,300,400 in the first nine months of 2013 versus \$4,691,000 for the same period in 2012, an increase of \$2,609,400 or 55.6%. This increase is primarily attributable to increased distribution to new and existing customers and the improved placement of our products at existing customers. Our current distribution agreement with Church & Dwight Co. Inc. (Church & Dwight) relating to Batiste Dry Shampoo runs through December 31, 2014. We have already begun transition discussions with Church & Dwight in anticipation of the end of the agreement term. We are discussing with Church & Dwight the possibility of us entering into a new distribution agreement with them for certain segments of the marketplace in the United States.

Net sales of household products for the first nine months of 2013 accounted for 26.6% of net sales compared to 31.8% for the same period in 2012. During the first nine months of 2013, the sales of our household products were \$3,791,700 as compared to \$3,690,900 for the same period in 2012, an increase of \$100,800 or 2.7%. The increase is attributable primarily to increased sales on certain of our wood care products, which we believe is due to television advertising and coupons.

We paid our customers a total of \$1,411,900 in the first nine months of 2013 versus \$1,248,700 for the same period in 2012, an increase of \$163,200 or 13.1% for trade promotions to support price features, displays and other merchandising of our products. This increase is primarily attributable to higher spending on trade promotions for Montagne Jeunesse and Batiste Dry Shampoos, which we believe was the primary reason we were able to generate \$2,609,400 or 55.6% more net sales in the first nine months of 2013 compared to the first nine months of 2012.

From time to time, our customers return products to us. For our household products, we permit returns only for a limited time. With regard to our skin and hair care products, returns are more frequent under an unwritten industry standard that permits returns for a variety of reasons. In the event a skin and hair care customer requests a return of a product, we will consider the request, and may grant such request in order to maintain or enhance our relationship

with the customer, even in the absence of an enforceable right of the customer to do so. Typically, customers that return products to us take a credit on our invoice equal to the original sale price plus a handling charge ranging from 8-10% of the original sales price. Our product returns (as a percentage of net sales) were 0.9% percent for the first nine months of 2013 compared to 1.5% for the same period in 2012. The decrease is primarily attributable to returns in 2012 due to reducing the fill amount and changing the graphics on our cans of Scott's Liquid Gold® Wood Cleaner and Preservative to reduce costs.

On a consolidated basis, cost of sales was \$7,637,400 during the first nine months of 2013 compared to \$6,574,600 for the same period in 2012, an increase of \$1,062,800 or about 16.2%, on a net sales increase of 22.5%. As a percentage of consolidated net sales, cost of sales was 53.6% in the first nine months of 2013 versus 56.6% for the same period in 2012.

The cost of sales for our skin and hair care products decreased to 52.9% in the first nine months of 2013 as compared to 53.3% for the same period in 2012. This decrease reflects primarily less spending on trade promotions as a percentage of sales and the effect of a higher contribution margin due to increased sales.

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The costs of sales for our household products decreased to 55.6% in the first nine months of 2013 as compared to 63.6% for the same period in 2012. This decrease is primarily attributable to reducing the fill amount and reducing the number of colors in the graphics on our cans of Scott's Liquid Gold® Wood Cleaner and Preservative to reduce costs, which began in the second quarter of 2012 as well as a decrease in our costs for certain raw materials.

Operating Expenses, Interest Expense and Other Income

| | Nine Months Ended September 30, | | Percentage |
|---------------------------------|---------------------------------|--------------|------------------------|
| | 2013 | 2012 | Increase (Decrease) |
| Operating Expenses | | | |
| Advertising | \$ 489,800 | \$ 255,500 | 91.7% |
| Selling | 3,374,200 | 3,256,100 | 3.6% |
| General and administrative | 2,022,600 | 2,063,800 | (2.0%) |
| Impairment of long-lived assets | 0 | 286,900 | (100.0%) |
| Total operating expenses | \$ 5,886,600 | \$ 5,862,300 | 0.4% |
| Rental and Other Income | \$ 30,100 | \$ 96,700 | (68.9%) |
| Interest Expense | \$ 72,700 | \$ 195,100 | (62.7%) |

Our operating expenses increased by \$24,300 or 0.4% in the first nine months of 2013 when compared to the same period in 2012. These expenses consist primarily of advertising, selling, general and administrative expenses and an impairment of long-lived assets, which are discussed below.

Advertising expenses for the first nine months of 2013 were \$489,800 compared to \$255,500 for the same period in 2012, an increase of \$234,300 or 91.7%, primarily related to television advertising and coupons for Scott's Liquid Gold® Wood Cleaner and Preservative in the first quarter of 2013 and limited television advertising for our Diabetic cream in the second quarter of 2013.

Selling expenses for the first nine months of 2013 were \$3,374,200 compared to \$3,256,100 for the same period in 2012, an increase of \$118,100 or 3.6%. This increase is primarily attributable to changes in personnel within our sales organization starting in the first quarter of 2013.

General and administrative expenses for the first nine months of 2013 were \$2,022,600 compared to \$2,063,800 for the same period of 2012, a decrease of \$41,200 or 2.0%. This decrease is primarily attributable to a reduction in the operating and maintenance costs of our Facilities which were sold in the first quarter of 2013.

The impairment of our long-lived assets for the first nine month of 2013 was \$0 compared to \$286,900 for the same period in 2012. The decrease is due to an impairment to the carrying value of our Facilities which were sold in the first quarter of 2013.

Rental and other income for the first nine months of 2013 of \$30,100 included \$11,000 of net rental receipts and \$10,900 in interest earned on our cash reserves. This compares to total rental and other income for the first nine months of 2012 of \$96,700 which included \$94,900 of net rental receipts and \$1,800 in interest earned on our cash reserves. The decrease in rental income is a result of the sale of our Facilities on February 1, 2013, part of which were being leased to unaffiliated tenants.

Interest expense for the first nine months of 2013 was \$72,700 and included \$24,500 in administrative fees incurred relative to the sale of accounts receivable invoices to Summit and a one-time non-cash charge of \$31,700 to expense capitalized loan fees in connection with the sale of the Facilities. Interest expense for the first nine months of 2012 was \$195,100 and included \$64,700 in collateral management and/or administrative fees paid to Summit. The decrease in interest expense is due to us paying off our mortgage as a result of the sale of our Facilities on February 1, 2103 and maintaining since that time a zero balance on our line of credit with Summit.

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Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Comparative Net Sales

| | Three Months Ended September 30, | | Percentage |
|--|----------------------------------|--------------|------------------------|
| | 2013 | 2012 | Increase (Decrease) |
| Scott's Liquid Gold® and other household products | \$ 1,184,600 | \$ 1,141,200 | 3.8% |
| Total household products | 1,184,600 | 1,141,200 | 3.8% |
| Alpha Hydrox®, Diabetic cream and shampoo and other skin care products | 1,138,700 | 1,066,900 | 6.7% |
| Montagne Jeunesse and Batiste Dry Shampoo | 2,685,200 | 1,659,600 | 61.8% |
| Total skin and hair care products | 3,823,900 | 2,726,500 | 40.2% |
| Total net sales | \$ 5,008,500 | \$ 3,867,700 | 29.5% |

During the third quarter of 2013, net sales of our skin and hair care products accounted for 76.3% of consolidated net sales compared to 70.5% for the same period in 2012. The net sales of these products for that period were \$3,823,900 in 2013 compared to \$2,726,500 for the same period in 2012, an increase of \$1,097,400 or 40.2%.

The net sales of our Alpha Hydrox® and other manufactured skin care products were \$1,138,700 in the third quarter of 2013 versus \$1,066,900 for the same period in 2012, an increase of \$71,800 or 6.7%. This increase is primarily attributable to increased consumer demand.

The net sales of Montagne Jeunesse and Batiste Dry Shampoo were \$2,685,200 in the third quarter of 2013 versus \$1,659,600 for the same period in 2012, an increase of \$1,025,600 or 61.8%. This increase is primarily attributable to increased distribution to new and existing customers and the improved placement of our products at existing customers.

Net sales of household products for the third quarter of 2013 accounted for 23.7% of net sales compared to 29.5% for the same period in 2012. During the third quarter of 2013, the sales of our household products were \$1,184,600 as compared to \$1,141,200 for the same period in 2012, an increase of \$43,400 or 3.8%. The increase is attributable primarily to increased sales on certain of our wood care products, which we believe is due to television advertising and coupons.

We paid our customers a total of \$418,700 in the third quarter of 2013 versus \$357,800 for the same period in 2012, an increase of \$60,900 or 17.0% for trade promotions to support price features, displays and other merchandising of our products. This increase is primarily attributable to higher spending on Montagne Jeunesse and Batiste Dry Shampoo, which we believe was the primary reason we were able to generate \$1,025,600 or 61.8% more net sales in the third quarter of 2013 compared to the third quarter of 2012.

From time to time, our customers return products to us. For our household products, we permit returns only for a limited time. With regard to our skin and hair care products, returns are more frequent under an unwritten industry standard that permits returns for a variety of reasons. In the event a skin and hair care customer requests a return of a product, we will consider the request, and may grant such request in order to maintain or enhance our relationship with the customer, even in the absence of an enforceable right of the customer to do so. Typically, customers that return products to us take a credit on our invoice equal to the original sale price plus a handling charge ranging from 8-10% of the original sales price. Our product returns (as a percentage of net sales) for the third quarter of 2013 compared to the same period in 2012 remained relatively constant.

On a consolidated basis, cost of sales was \$2,639,400 during the third quarter of 2013 compared to \$2,287,500 for the same period in 2012, an increase of \$351,900 or about 15.4%, on a net sales increase of 29.5%. As a percentage of consolidated net sales, cost of sales was 52.7% in the third quarter of 2013 versus 59.1% for the same period in 2012.

The cost of sales for our skin and hair care products decreased to 51.2% in the third quarter of 2013 as compared to 58.4% for the same period in 2012. This decrease reflects primarily less spending on trade promotions as a percentage of sales and the effect of a higher contribution margin due to increased sales.

The costs of sales for our household products decreased to 57.4% in the third quarter of 2013 as compared to 61.0% for the same period in 2012. This decrease is primarily attributable to reducing the fill amount and reducing the number of colors in the graphics on our cans of Scott's Liquid Gold Wood Cleaner and Preservative to reduce costs, which began in the second quarter of 2012 as well as a decrease in our costs for certain raw materials.

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Operating Expenses, Interest Expense and Other Income

| | Three Months Ended September 30, | | Percentage |
|---------------------------------|----------------------------------|--------------|------------------------|
| | 2013 | 2012 | Increase (Decrease) |
| Operating Expenses | | | |
| Advertising | \$ 70,600 | \$ 60,100 | 17.5% |
| Selling | 1,092,700 | 1,001,300 | 9.1% |
| General and administrative | 604,400 | 707,900 | (14.6%) |
| Impairment of long-lived assets | 0 | 286,900 | (100.0%) |
| Total operating expenses | \$ 1,767,700 | \$ 2,056,200 | (14.0%) |
| Rental and Other Income | \$ 8,700 | \$ 32,100 | (72.9%) |
| Interest Expense | \$ 7,100 | \$ 67,200 | (89.4%) |

Our operating expenses decreased by \$288,500 or 14.0% in the third quarter of 2013 when compared to the same period in 2012. These expenses consist primarily of advertising, selling, general and administrative expenses and an impairment of long-lived assets, which are discussed below.

Advertising expenses for the third quarter of 2013 were \$70,600 compared to \$60,100 for the same period in 2012, an increase of \$10,500 or 17.5%.

Selling expenses for the third quarter of 2013 were \$1,092,700 compared to \$1,001,300 for the same period in 2012, an increase of \$91,400 or 9.1%. This increase is primarily attributable to changes in personnel within our sales organization starting in the first quarter of 2013.

General and administrative expenses for the third quarter of 2013 were \$604,400 compared to \$707,900 for the same period of 2012, a decrease of \$103,500 or 14.6%. This decrease is primarily attributable to a reduction in the operating and maintenance costs of our Facilities, which we sold in the first quarter of 2013.

The impairment of our long-lived assets for the third quarter of 2013 was \$0 compared to \$286,900 for the same period in 2012. The decrease is due to an impairment to the carrying value of our Facilities, which we sold in the first quarter of 2013.

Rental and other income for the third quarter of 2013 of \$8,700 included \$0 of net rental receipts and \$4,000 in interest earned on our cash reserves. This compares to total rental and other income for the third quarter of 2012 of \$32,100 which included \$31,700 of net rental receipts and \$400 in interest earned on our cash reserves. The decrease in rental income is a result of the sale of our Facilities on February 1, 2013, part of which were being leased to unaffiliated tenants.

Interest expense for the third quarter of 2013 was \$7,100 and consisted of administrative fees incurred relative to the sale of accounts receivable invoices to Summit. Interest expense for the third quarter of 2012 was \$67,200 and included \$21,100 in collateral management and/or administrative fees paid to Summit. The decrease in interest expense is due to us paying off our mortgage as a result of the sale of our Facilities on February 1, 2013 and maintaining since that time a zero balance on our line of credit with Summit.

Liquidity and Capital Resources

Citywide Loan

On June 28, 2006, we entered into a loan with a fifteen year amortization with Citywide Banks for \$5,156,600 secured by the land, building and fixtures at our Denver, Colorado facilities. Interest on the bank loan was at the prime rate as published in The Wall Street Journal, adjusted annually each June. The loan required 180 monthly payments of approximately \$38,200 each. The principal and accrued interest on the loan was repaid in full on February 1, 2013 at the closing of the sale of the Facilities.

Financing Agreements

Please see Note 1(f) to our Consolidated Financial Statements (Unaudited) for information on our financing agreements with Summit and Wells Fargo.

Liquidity

At September 30, 2013, we had \$3.3 million in cash and the entire \$1.5 million of our credit line with Summit was available for future borrowing. Our net cash used by operating activities in the first nine months of 2013 was \$2,380,700 as compared to net cash provided by operating activities of \$423,600 for the same period in 2012. For the first nine months of 2013, the primary components of working capital (exclusive of cash that was \$3,054,300 more at September 30, 2013 compared to December 31, 2012) that significantly affected operating cash flows are the following: (1) net trade receivables were \$391,500 more at September 30, 2013 than at December 31, 2012 due primarily to increased gross sales activity and the timing of receiving payment; (2) obligations collateralized by those receivables and inventory were \$1,201,400 less at September 30, 2013 than at December 31, 2012 due to repaying the outstanding balance on our credit line with Summit on February 4, 2013 following the sale of our Facilities; (3) inventory at September 30, 2013 was \$891,800 more than at December 31, 2012 due primarily to increased gross sales activity; and (4) accounts payable and other accrued expenses at September 30, 2013 were \$717,200 less than at December 31, 2012 due primarily to paying real estate property taxes for 2012 at the closing for the sale of our Facilities and paying certain other financial obligations to suppliers and vendors in February 2013.

We anticipate that our existing cash, especially given the cash proceeds from the sale of our Facilities, and our cash from operations, together with our current borrowing arrangements with Summit and Wells Fargo, will be sufficient to meet our cash requirements for the next 12 months.

During the first nine months of 2013, we made total capital expenditures of approximately \$160,800 as a result of the sale of our Facilities on during the first quarter of 2013. These capital expenditures primarily included: (1) the construction of a specially designed room and sprinkler system for the storage of certain of our aerosol products necessitated when we sold the Facilities and had to vacate the building where they were previously stored; (2) the installation of a separate security system for the parts of the Facilities that we lease; and (3) the relocation of our telecom and data systems to the parts of the Facilities that we lease. In addition, during the third quarter of 2013, we made total capital expenditures of approximately \$30,200 to upgrade the computer hardware and software used by our employees. We expect to incur approximately \$20,000 in capital expenditures in the fourth quarter of 2013 for certain renovations to our Facilities necessitated by the sale of the Facilities during the first quarter of 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As of September 30, 2013, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of September 30, 2013.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in Item 1A, Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, and subsequent quarterly reports on Form 10-Q which could materially affect our business, financial condition or future results.

ITEM 6. EXHIBITS.

| Exhibit Number | Document |
|----------------|---|
| 31.1 | Rule 13a-14(a) Certification of the Chief Executive Officer |
| 31.2 | Rule 13a-14(a) Certification of the Chief Financial Officer |
| 32.1* | Section 1350 Certification |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

*Furnished, not filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCOTT S LIQUID GOLD-INC.

By: /s/ Mark E. Goldstein
Mark E. Goldstein
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Barry J. Levine
Barry J. Levine
Treasurer, Chief Financial Officer and Chief Operating Officer
(Principal Financial and Chief Accounting Officer)

Date: November 13, 2013

EXHIBIT INDEX

| Exhibit Number | Document |
|----------------|---|
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| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

*Furnished, not filed.